

## House Interim Hearing Written Testimony - TDA

### General Update

Operations at the Texas Department of Agriculture (TDA) are continuing to function at a high and efficient level. COVID funding from the federal government allowed Trade and Business Development to offer additional grant opportunities, increase outreach activities, and boost international trade. Food and Nutrition successfully operated all 12 federal feeding programs simultaneously and now is preparing to transition back to pre-pandemic operations. Agriculture and Consumer Protection has continued to carry out regulatory duties without interruption. Similar to other state agencies, TDA has struggled with staffing shortages over the past biennium, but staff have done an impressive job of keeping up with program demand.

Some anticipated needs for the next legislative session include:

- **Road Stations** – Road stations are vital to protect our state's agriculture industry from pests and diseases. We have a robust agriculture inspection system along our border with Mexico and at our seaports, but many of the threats to our state come from other states. Other major agricultural states tend to be vigilant about plants coming into their state yet lax about plants leaving their state. Previously, the federal government provided \$1.3 million per year for plant and pest Critical Entry Point inspections. Going forward, they will provide \$429,000 each year for annual year (AY) 23 and AY24 and will cease all fiscal support after that time. To operate the road stations as is, the state will need to cover the shortfall of \$1.3 million per year. If the state truly wanted to have a thorough plant pest and disease Critical Entry Point program (which is an industry priority), TDA estimates that we will need at least four permanent road stations which will cost approximately \$17 million to construct and \$6 million per year to operate. TDA also must contract with the Texas Department of Public Safety (DPS) to operate the road stations. DPS provides the necessary security and vehicle interdiction for TDA at an inspection station. Texas' serious border issues will likely continue to interfere with DPS's ability to provide troopers at inspection sites. If TDA could hire peace officers as department staff, like almost all states that aim to protect against invasive diseases and pests, the road stations would be less costly and logistically challenging to operate. TDA has cooperated with the Texas Animal Health Commission, Comptroller of Public Accounts, Texas Parks and Wildlife, and DPS at inspection sites in the past. TDA recommends that the state develop multi-use state agency inspection facilities.
- **Farmer Mental Health and Suicide Prevention Program** – This program (established by an amendment to TDA's Sunset bill) has been successfully implemented and incredibly well received by the agricultural community. The State Office of Rural Health (SORH) partnered with AgriSafe and the Southwest Ag Center to create both a helpline for farmers/ranchers and a media campaign focused on mental health in the agricultural community. USDA awarded TDA a \$500,000 grant to develop this program, but this was

a one-time funding opportunity. To maintain program operations, SORH will request that the state step in to provide the \$500,000 per year needed.

- Information Technology (IT) Upgrades – Last session, TDA was given \$1,026,628 to evaluate options for replacing its outdated legacy software system. With all the recent cybersecurity threats, especially in the agriculture sector, the need for modern, secure software has never been more pressing. The IT department has investigated many types of software offered by various companies and believes that a “Software as a Service” with cloud data storage will be the most effective replacement. TDA will need approximately \$7 million to procure this new technology and \$850,000 for related equipment upgrades.

### Bill Implementation and Rulemaking

See Excel spreadsheet handout for updates on specific bills, budget riders, sunset amendments, and rules.

### HB 2089

This bill established two new programs within TDA: a research grant for the mitigation of plant pests and diseases and an internal threat identification and mitigation program. For the grant portion, a “general invitation for proposal” was issued on July 22, 2021, to the list of “interested parties” from HB 2089:

- Plains Cotton Growers
- South Texas Cotton and Grain Association
- Texas Citrus Mutual
- Texas Corn Producers
- Texas Farm Bureau
- Texas Grain Sorghum Association
- Texas Nursery and Landscape Association

These groups sent email outreach to all universities to apply for funding for projects under the scope of this bill. TDA grants staff worked with stakeholders above to identify scoring criteria for all proposals submitted. Then, each stakeholder group evaluated all submitted proposals independently. TDA staff received all scores and ranked proposals based on all scores. A meeting with all stakeholders was held on September 2, 2021, to finalize award decisions. The awards decisions were routed internally following TDA approval procedures, and grant agreements were issued to the selected projects. The two projects that were funded are studying Fusarium wilt race 4 (FOV4) in cotton and citrus canker.

Grant projects funded in AY 2022 have a two-year grant term. Funding spent to date is \$23,459.94 for university expenses between 10/1/2021 and 2/28/2022. Grantees are providing

performance reports as required. State fiscal year (FY) 2023 plans include issuing a new “general invitation for proposal” in July/Aug 2022.

In addition to administering the grant, TDA has also developed risk assessments for potential threats of invasive pests to the state. There are many potential threats to the Texas landscape and crop industry from both other states and other countries. Threats from overseas have been detected in many states and the TDA has prioritized monitoring and risk assessment of these industry threats. While all crops are monitored for pests, Cotton, citrus, and landscape vegetation (trees, shrubs, and ornamental plants) currently receive the most vigilance. California, Florida, and Pennsylvania are currently sources of concern for many invasive pests and diseases.

Cotton Boll Weevil and Pink Bollworm are pests of great concern to the cotton industry in Texas. The Texas Boll Weevil Eradication Foundation, in conjunction with TDA, operates a monitoring and eradication program to remove these harmful pests from our cotton industry. One major Boll Weevil Foundation success occurred in October 2019 when the Pink Bollworm was declared eradicated after over 100 years of infestation. Citrus diseases such Citrus Canker, Citrus Greening, Citrus leprosis virus, Citrus yellow vein clearing virus and Mexican Fruit Fly are some pests that affect the state’s citrus industry. TDA, along with the United States Department of Agriculture (USDA), Customs & Border Protection Service (CBP), and Texas Plant Diagnostics Lab, provide monitoring, detection sampling, and inspection for the protection of the industry. Other pests, such as Japanese Beetle, Imported Fire Ant, Pecan Weevil, Sweet Potato Weevil, European corn borer, Diaprepes root weevil, Emerald Ash Borer and Date palm lethal decline, are also monitored, sampled, and inspected in affected counties. TDA limits movement of certain plants and destroys infected plants to prevent infestations in other parts of the state.

TDA works with the State Seed Board on seed certification and pest mitigation projects and provides quarterly performance measures of seed samples inspected. TDA works with United States Department of Agriculture Animal and Plant Health Inspection Service – Plant Protection and Quarantine through cooperative agreements for Cooperative Agricultural Pest Surveys (CAPS), Citrus Health Response Program (CHRP), Imported Fire Ant (IFA), and Gypsy Moth (GM) survey. TDA collaborates on the “Don’t Pack a Pest” campaign with USDA and Customs and Border Protection to educate visitors to the state about the dangers of invasive species using billboards, social media, magazine advertisements, and radio messaging.

Routine inspections at plant growers and retailers as well as complaint investigations help to determine if any pests have been brought into the state from out of state growers, helping to insure healthy plants and vegetation for consumers. TDA implements road station inspections on major highways into and around Texas to reduce the number of plant pests entering the state. A more robust road station program would benefit the state long term. TDA also takes emergency action on state and federal notifications for detection, containment and eradication of invasive pests introduced into the state. Surveys of pests detected in the state are conducted annually, helping to control the spread of pests in Texas. Community outreach is also implemented to notify the public of pest and disease outbreaks, this allows for the public to reach back to TDA for assistance and increases awareness. TDA has also issued stop sales and implemented destruction of plant materials to reduce the negative impact of transported plants in the state.



### Food Desert Study (Budget Rider 27)

The TDA food desert study was required by rider 27 in the TDA budget. The goal of this study is to provide data-supported suggestions for improving access to stores that sell produce and other healthy foods in food desert areas. Mitigating food deserts through improved food access increases the resiliency of Texas communities and strengthens local economies. According to the definition by the United States Department of Agriculture, a food desert is a low-income census tract that is more than 1 mile from a grocery store in an urban area and more than 10 miles from a grocery store in a rural area. Based on this definition, Texas had 1022 census tracts considered food deserts as of 2019. Of these, approximately 10% were rural and 90% were urban.

TDA initially considered conducting the study in-house but determined that partnering with a state university would result in a more robust report. We released a call for proposals for grant funding and selected University of Texas Rio Grande Valley (UTRGV) graduate student Jessie Barber to conduct the study. The format of the study consists of approximately five months of background research, five months of survey design and data analysis, and two months of report development. Policy Specialist Addie Stone has been the point of contact for this study and participated in the background research process. The study is proceeding on schedule.

Jessie and Addie began the background research process by contacting a variety of organizations and individuals that had experience in food desert mitigation activities. They conducted 17 interviews with organizations like Feed Oak Cliff, Rio Grande Valley Food Bank, Rural Grocery Initiative, USDA Rural Development, Food Policy Council of San Antonio, and major/minor grocery store chains. Through these interviews, they learned about underlying causes of low food access and innovative, community-based strategies that had been successful in different parts of the state. They also investigated previous legislation related to food deserts that had failed to pass (for example: SB403 and SB1208 in 83R, HB1485 in 84R, and HB164 in 85R) and strategies that have been successful in other states.

When you assuage the effects of a food desert, you improve the livelihoods of Texans in the community which increases the ability of the community to be self-sustaining. However, one fact that stood out from the beginning of the study process is that a traditional full-size grocery store is not the right fit for every community. It is true that not all communities could financially sustain a store, and financial incentives are typically insufficient to get a for-profit store to enter an area that they deem impractical for business. Therefore, “grocery-store only” solutions would likely lack substantial support and be limited in their potential benefits. Additionally, the common thread among all the interviews was the fact that income was more of a determinant of food security than grocery store proximity.

To avoid presenting the legislature with an unworkable “one-size-fits-all” recommendation, Jessie and his advisors designed a survey that accounts for the individuality of food deserts across the state. The finalized survey will ask open-ended, yet quantifiable, questions about food security, current shopping habits, and proposed actions for local and state government based on the information gathered during the background research stage. By the time of the interim hearing, the survey will have been submitted to the UTRGV institutional review board for

approval. Approval is expected in mid-June; surveying will begin shortly after and continue for approximately six weeks. The data from this survey will be analyzed to provide state-level and more localized insight that legislators and community leaders can use to inform future food access policy.

Although the data from the survey will highlight a subset of potential solutions, the report will also contain creative suggestions from the background research phase that could be explored further. Some of these ideas include community feasibility studies, a Texas Food Systems Summit, incentives for planting edible landscaping, and support for cooperative businesses. Jessie and Addie are happy to speak to any interested legislative office about the study in more detail.

#### Warfarin Pilot Program (Budget Rider 28)

The Texas Department of Agriculture has collaborated with AgriLife Extension to implement the warfarin pilot program as described in rider 28 of the TDA budget. TDA's role in this pilot program has been to register warfarin products for use in the study and to license applicators participating in the study. The information that follows was reported to TDA by AgriLife, and they would be able to provide more detailed information on the pilot program.

The program trialed six sites across the state with various ecological conditions.

- Chambers County
- Caldwell County
- Anderson County
- Burnett County (2 sites)
- Sutton County

The targeted hogs were pre-conditioned to eat from a self-feeder with corn bait. They were then transitioned to a placebo with corn then through active pesticide with corn at increasing ratios until they were fed with 100% active bait. One concern was that with warm weather, green weeds, grasses, and other vegetation might have been more appealing to the hogs than the bait. Additionally, Vitamin K is the antidote for this bait. With new green vegetation growth, Vitamin K becomes more readily available and could have hindered the effect of the bait.

These concerns did not come to fruition, and the bait was successful at almost all sites.

- Chambers County – Successful take
- Caldwell County – Successful take
- Anderson County – Successful take after adjustments
- Burnet County – Successful take in one location, hogs were introduced to 100% active bait too quickly in second location and failed to eat it
- Sutton – Landowner shot the hogs, efficacy of bait could not be assessed



## TAFA

The Texas Agricultural Finance Authority, or TAFA, was established by the legislature as a unit within the Department of Agriculture in 1987 and is collectively authorized by chapters 44 and 58 of the Texas Agriculture Code. The purpose of TAFA is to provide financial assistance to eligible agricultural businesses and other economic development endeavors within the rural communities that support them. Chapter 58 establishes the Texas Agricultural Fund, which consists of the proceeds of constitutionally and legislatively authorized General Obligation bonds and other funds as appropriated by the legislature.

Section 49i of the Constitution authorizes the issuance of bonds to fund financial assistance programs that support agricultural businesses and micro-enterprises. Section 49f authorizes the issuance of up to \$200 million in general obligation bond debt for the purposes set forth in 49i and for other rural economic development programs, consistent with TAFA's statutory mission.

Rural economies are supported by three institutional pillars:

- **Private enterprises** that provide jobs and commerce
- **Public institutions** that support the economy through governance, infrastructure, and economic development initiatives
- **Financial institutions** that deliver the capital necessary for economic stability and growth.

It is generally understood that private enterprise will thrive as long as it operates in a supportive environment. The environment of rural communities often poses opportunity for success.

TAFA has historically seen the greatest value return on its economic development investments in rural communities, primarily through local government institutions and community support.

Capitalizing on these observations, the TAFA board has authorized the Rural Economic Development Finance Program, which includes two new bond-funded loan structures:

- **Rural Community Loan**
- **Agriculture and Community Economic Development (or ACED) loan.**

Rural communities, municipal corporations, and special districts bear direct responsibility for their local economies and are financially empowered to do so primarily through sales tax collection and other revenue creation (utilities, e.g.). In principle, this is no different than Texas's largest political subdivisions. However, when seeking to leverage these revenue sources, rural communities find themselves at a unique disadvantage compared to their urban counterparts.

While no less critical to residents and businesses, rural projects are often **smaller** in size and **infrequent**. As a result, the public finance industry has evolved to compete more aggressively in urban areas and larger towns where **deal sizes are larger** and greater **economies of scale can be achieved**.

Additionally, costs of issuance can be enormous, regardless of transaction size. Larger transactions can more easily amortize these high costs, but for smaller deals they are less efficient at best and prohibitive at worst.

The **Rural Community Loan** Program addresses these gaps. By leveraging the state's credit rating and the scale of a single debt facility, TAFE can act as a conduit for communities with limited or no access to bond markets. Instead of issuing revenue bonds, smaller communities can pledge tax and other revenues to secure debt issued directly to TAFE. This structure will ensure the low yields reflective of much larger issues and significantly reduce closing costs that would otherwise prohibit access to more traditional capital markets.

The **Financial Sector**, especially community banks, provides essential support for the rural economy. Smaller banks can experience challenges similar local governments. Community banks are the ideal source for capitalizing the needs of a local economy. They are woven into the fabric of their communities and best understand the needs and capabilities of their depositors and borrowers.

Nevertheless, as capital demands increase at the single borrower level, or within an already heavily leveraged industry, local lending institutions can become stressed. Whether due to the unintended consequences of **regulatory burden** or simply prudent portfolio diversification policies, smaller banks often find themselves unable to independently achieve the scale necessary for larger projects and community needs.

These limitations are offset to a degree through federal guarantee programs like the Small Business Administration (SBA) and through syndicated relationships with other lending institutions, but these strategies don't come without cost. Complexity, long lead times, and the potential dilution or loss of client relationships are some of the downside risks.

For over a decade now, TAFE has administered the **Agricultural Loan Guarantee** program in an effort to address these challenges. Backed by the corpus of the Texas Agricultural Fund, TAFE offers guarantees of up to 90% of loan balances held by community banks to qualifying agricultural businesses.

TDA staff thoroughly evaluates both borrower and counterparty risk, but the guarantees can still be secured much more quickly and with significantly less restrictions than similar federal guarantee programs. The program has never experienced a draw on TAFE funds for losses, which is a testament to the underwriting policies of the industry and program staff.

TAFE also administers an **Interest Rate Reduction Program**, intended to reduce downstream borrowing costs through linked deposits held in participating financial institutions.

While these programs have historically delivered tremendous value to the banks and borrowers that they support, they do have some limitations. The duration of the agricultural loan guarantee is limited to 10 years, and the maximum guarantee is limited to \$500,000, primarily due to the size of the Agricultural Fund and in an effort to maintain diversity in the overall program. Additionally, the low interest rate environment that has existed for more than a decade has diminished the net impact of linked deposit structures.

Our proposed **ACED loan program** might be considered a companion to the Ag Loan Guarantee and Interest Rate Reduction programs. It is designed with similar goals, but instead of guarantees and subsidy deposits, TAFE will offer participations on bank loans to qualifying borrowers. This is similar to a syndicated or leveraged loan, but the participating bank retains 100% of **the loan servicing rights** and experiences no visible change to the original **lender-borrower relationship**.



Through the program, banks can leverage an existing capital base up to **3.3:1** (based upon a 70% participation by TAFE) for eligible borrowers and industries with no impact to the bank's balance sheet and with no threat of interference with client relationships. In addition to expanded lending capacity, loan interest rates can be lowered, if desirable, to reflect the weighted average of the bank's cost of capital and the very low cost of TAFE's general obligation bond proceeds.

The proposed loan programs neither replace nor circumvent traditional avenues of capital distribution; they are supportive in nature. Capital invested by a community and in the community, whether that be by local government institutions or by lenders, remains in the community. Our **Rural Economic Development Finance program** is a structural support option for rural institutions to better perform their respective roles within the regions and industries they serve.

This program will deliver tremendous value to rural communities, but TAFE remains **first a steward of the Texas Agricultural Fund**. In recognition of the self-supporting nature of its authorized debt, TAFE has adopted an additional mission in both policy and rule: **Risk Management and Capital Preservation**.

Every loan extended from the Texas Agricultural Fund, whether from bond proceeds or the fund's corpus, is subject to strict and professional underwriting standards. The TAFE board has adopted a comprehensive credit policy, including a proprietary risk rating system derived from similar Standard and Poor (S&P) models associated with the industries covered.

Every borrower and counterparty will be adjudicated within this model to assess both enterprise and financial risk, ultimately resulting in a composite score that will inform:

- Credit decisions
- Loan loss reserve calculations

Each loan in the portfolio will be monitored at least annually to assess reserve adequacy and report any material changes in risk profile to the board and other constituents.

The TAFE credit policy is designed to:

- Minimize and manage portfolio risk
- Maintain adequate reserves against unexpected losses
- Ensure ongoing availability of funds to service the debt that we are asking Texas Public Finance Authority to issue on our behalf

Bon Weir and Roxanna Newton are happy to provide more detailed information on TAFE to any interested legislative office.

### Right to Farm

We regularly visit with other states through the National Association of State Departments of Agriculture and discuss what has and has not worked both legislatively and legally.